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Assistant Secretary
of State 7

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MR. ACHESON

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MEMORANDUM ON

The Transfer of Swiss-owned Gold in the United States

In September, 1941, the Swiss National Bank attempted to obtain permission from the Treasury to export from New York to Portugal \$2 million in gold. The reason given by the Swiss Minister for the transaction was the need for this gold to make payments due to Portugal and the fact that Switzerland could not release gold for this purpose from her reserves in Switzerland. After careful consideration, this application was denied by the Interdepartmental Committee on Foreign Funds.

On October 10, 1941, the Swiss National Bank cabled the Federal Reserve Bank to obtain a license to transfer \$11.5 million in gold from the earmarked account of the Swiss National Bank to the earmarked account of the Bank of Portugal. In this cable the Swiss National Bank stated:

"As you see, Banco [de Portugal] has consented now to such transfer instead of asked shipment from New York. We therefore hope to get now very promptly the license asked for."

Subsequently, a cable was received on October 14 by the Federal Reserve Bank from the Bank of Portugal stating:

"According to cable you will have received from Banque Nationale Suisse, Zurich, please do necessary to transfer from their to our gold account with you 10,000 kilos fine gold bars as we are delivering Banque Nationale Suisse, Zurich, equivalent amount from our gold deposit with them at Berne."

The Swiss cable of October 10, fairly read, indicated that the transfer of the earmarked gold in New York was for payments which the Swiss wished to make in Portugal. We were not told the very material fact that this transaction was fundamentally an export of gold from New York to Switzerland.

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A third application is pending requesting a license to release \$100,000 in gold from the account of the Central Reserve Bank of Peru for shipment to Argentina where it would be credited to the account of the Swiss National Bank in return for a corresponding credit of Swiss francs in Zurich.

In a communication to the Under Secretary of State, the Swiss Minister states that the Swiss National Bank must transfer 30,000 kilograms of gold (about \$34 million) from this country to Switzerland. Further, the American Embassy in Mexico reports that a Mexican bank has received an inquiry from a Swiss bank with respect to the price of freely exportable gold bars against dollars, and the American Embassy in Brazil reports that the Bank of Brazil has been informed that the Swiss National Bank may ship gold to Brazil for safekeeping.

These applications and inquiries show conclusively that the Swiss Government is determined to withdraw gold from the United States, directly or indirectly, for the purpose of increasing its gold holdings in Europe. The transfer of such large quantities of gold to Europe at this time is contrary to the vital interests of the American Government and to the long-range interests of the Swiss Government.

Sixty percent of the gold reserves of Switzerland are in the United States. According to the Swiss Minister: "The reasons why the Swiss National Bank accumulated such an important part of its reserves in this country was the confidence which Switzerland placed in the Government of the United States of America as well as the conviction that in no other country could the reserves of a small independent nation be better safeguarded than in America." The soundness of this view is clear. In May and June, 1940, the Swiss Government asked the United States to facilitate the shipment of all of its gold reserves from Switzerland to this country. What has happened since to make Europe a safe place in which to hold the gold reserves of a small nation?

The first reason given by the Swiss Minister for transferring gold to Switzerland is the need for \$34 million in gold to provide sufficient reserves for the note issue. As Swiss banknotes are not

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convertible into gold and as Swiss gold reserves are held solely as assurance of the soundness of the currency, it would seem that this purpose could be better served by retaining the gold reserves in this country where they are safe from seizure by invaders. The welfare of Switzerland would be better served by keeping to a minimum its reserves of gold in Europe and by basing its note issue on earmarked gold in this country. This is a practice now followed by many countries and by the Swiss National Bank prior to 1929. In May and June, 1940, the Swiss apparently were not troubled by the existence of any statute requiring that gold reserves be held in Switzerland.

The present large gold reserves in Switzerland are an invitation to the invader seeking loot. The direct transfer of gold to Switzerland cannot be regarded as in the interest of this country or even in the ultimate interest of a free Switzerland. The same objection applies to an increase in the gold reserves of Switzerland which will result from a switching transaction of earmarked gold to Portugal in New York in return for earmarked gold from Portugal in Berne.

The second reason given by the Swiss Minister for the transfer of gold to Switzerland is the need for such gold in settlement of adverse trade balances. Switzerland is importing raw materials and semi-finished goods from the less-developed parts of Europe for conversion into precision instruments and other highly fabricated war goods for export to Germany. Not only is Switzerland providing Germany with urgently needed goods but it is providing these goods on credit. According to the Swiss Minister, under the clearing agreement Switzerland is financing export credits to Germany at the rate of 400 million francs a year. The actual credits under the clearing agreement may in fact turn out to be much larger. It is admitted by the Swiss Minister that Switzerland is helpless to alter this situation. He says: "As a result of the developments of this war, it is entirely surrounded by Axis-dominated countries." Its imports and exports can continue only on the sufferance of Germany.

Transfer of earmarked gold in New York from Switzerland to Portugal is only one part of the transaction. Corresponding to this transfer, there is another transfer abroad from Portugal to Switzerland, resulting in an increase in the gold reserves at the disposal of Switzerland. Under present circumstances, such a transaction would result in an acceleration of Switzerland's economic contribution to Germany's war effort. The United States cannot imperil its vital interests by permitting Switzerland to withdraw gold from this country, directly or indirectly, for the purpose of expanding its contribution to the German war effort.

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Even if Switzerland, for the purpose of liquidating its obligations to Portugal, should desire to transfer to Portugal gold in New York to be left there under Portugal's earmark, we should not approve the transfers, particularly so long as Switzerland has enough gold in Europe to discharge its European obligations. It should be remembered that a substantial part of the materials heretofore or hereafter acquired by Switzerland from Portugal, will be used by Switzerland to manufacture goods for Germany or otherwise help Germany in its war effort.

The Swiss Government has indicated that the Italian Government is prepared to grant free transit of gold from New York to Switzerland by way of Genoa. It would be surprising if the Italian Government followed any other course. The Axis countries will make certain that Swiss gold will be used to the fullest extent to further Germany's war economy even if seizure or a threat of seizure is necessary for this purpose. It is so obviously to Germany's advantage to see an increase in the gold reserves held by Switzerland in Europe that the British Government has not granted a navicert for any of the proposed shipments of gold. It is interesting to observe that when the Swiss were considering moving all their gold to the United States in June, 1940, Somary, the Swiss representative, said he was unwilling to ship \$250,000,000 of gold through an Italian port even if the Italians agreed by treaty to allow Switzerland to use Genoa during the war. Somary noted that this amount of gold was more than the gold holdings of the Bank of Italy. What has happened since to make Italy a safe place through which to transport Swiss gold?

Our gold policy is in no way involved in refusing to allow Switzerland to withdraw its gold from this country or to transfer earmarked gold in New York to the earmark of another country. The Treasury is continuing to buy and sell gold from Switzerland and has done so very recently. Our policy with respect to Swiss-owned gold does not differ from our policy with respect to other Swiss-owned dollar assets and property in this country. Of course, our freezing control policy regulates the use of gold but that has been true ever since April, 1940. We are not singling out gold but simply treating it the same way we treat all other forms of blocked property.

This Government appreciates the confidence the Swiss Government has shown in this country and in its free institutions by maintaining a large part of its monetary resources in the United States. The sympathetic manner in which we have considered the

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economic and monetary problems of Switzerland is evidenced by our granting them a General License. There is nothing in the long history of our relations with Switzerland or our current views with regard to the rights of small countries to cause Switzerland to fear that her fundamental interests will be undermined by the United States.

In return we hope that the Swiss Government will recognize that we are acting in their interest and will continue to rely on our good faith by accepting dollar funds and by retaining earmarked gold and other Swiss-owned assets in this country.